

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-08 EA-10 FRB-03 INR-07 NEA-10 NSAE-00 USIA-06

OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00

OMB-01 SS-15 STR-05 OIC-02 L-03 NSC-05 /117 W

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 9732

INFO ALL OECD CAPITALS

USMISSION GENEVA

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USEEC

E.O. 11652: N/A

TAGS: ETRD, OECD

SUBJECT: AD HOC GROUP ON COMMON FUND: SEPTEMBER
27-28 MEETING

1. SUMMARY: AFTER LENGTHY BUT GENERALLY GOOD-NATURED AIRING OF DISSATISFACTION BY NUMEROUS DELS WITH CHAIRMAN'S INSISTENCE THAT A REPORT TO HIGH LEVEL GROUP ON COMMODITIES (HLGC) WHICH REFLECTED DIFFERING VIEWS WITHIN AD HOC GROUP WOULD SERVE NO USEFUL PURPOSE, AD HOC GROUP RESIGNED ITSELF TO PERMITTING CHAIRMAN TO SUBMIT A REPORT TO HLGC ON HIS OWN RESPONSIBILITY. FINAL VERSION OF CHAIRMAN'S REPORT, LIKE DRAFT DISTRIBUTED TO GROUP, HIGHLIGHT AREAS OF CONSENSUS AND PRESENTS CHAIRMAN'S PROPOSAL FOR A COMMON FUND BASED ON POOLING, BUT MAKES SOME CONCESSIONS, E.G., BY
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ACKNOWLEDGING THAT SOME COUNTRIES CONTINUE TO FAVOR DIRECT CONTRIBUTIONS IN CASH OR GUARANTEES TO THE CF.
END SUMMARY.

2. REPORT TO HIGH LEVEL GROUP: AS A RESULT OF PRE-NEGOTIATIONS WITH KEY DELS TO ADJUST WASHINGTON DRAFT, U.S. CHAIRMAN WAS ABLE WITH THEIR SUPPORT TO SECURE

GRUDGING ACQUIESCENCE IN TRANSMISSION OF REPORT TO HLGC ON HIS OWN RESPONSIBILITY, DESPITE COMPLAINTS BY SMALLER COUNTRIES (BELGIUM, SWITZERLAND, SWEDEN, NORWAY, NETHERLANDS, CANADA, AUSTRALIA) THAT THEIR VIEWS NOT ADEQUATELY REPRESENTED IN DRAFT PRESENTED TO THEM ON FIRST DAY OF MEETING. THESE DELS WANTED REPORT TO LAY OUT DIFFERENCES WITHIN AD HOC GROUP WHICH NEEDED RESOLUTION IN FUTURE. JAPAN ALSO EXPRESSED CONCERN THAT ITS IDEAS FOR A COMMON FUND MIGHT NOT BE REFLECTED. CHAIRMAN, BACKED BY FRG, UK, AND FRANCE, WHO POINTED OUT THAT REPORT FELL SHORT OF THEIR POSITIONS TOO, STUCK TO HIS POSITION THAT REPORT SHOULD HIGHLIGHT AREAS OF CONSENSUS RATHER THAN DIVERGENCE. AS A CONCESSION HE PROMISED TO MAKE SOME AMENDMENTS IN REPORT TO MEET SPECIAL PROBLEMS AND TO LIST THE ISSUES FOR THE HLGC WHERE AD HOC GROUP WAS STILL NOT IN AGREEMENT.

3. MAIN SUBSTANTIVE PROBLEMS REVEALED BY DISCUSSION INCLUDED DESIRE OF NUMBER OF DELS FOR MORE PROMINENCE IN THE REPORT OF DIRECT GOVERNMENT CONTRIBUTIONS AND DIRECT GOVERNMENT GUARANTEES TO FUND. AUSTRALIA, BACKED BY CANADA, REGISTERED GREAT RELUCTANCE TO ACCEPT SIGNIFICANT ROLE FOR STOCK WARRANTS IN BACK-UP FACILITY.

4. U.S. MADE CLEAR IT COULD NOT AGREE TO DIRECT CON-
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TRIBUTIONS AND GUARANTEES AND BASED ITS ACCEPTANCE OF CHAIRMAN'S REPORT ON THE ASSUMPTION THAT THE REPORT DID NOT PREJUDICE ITS POSITION ON THIS ISSUE. GROUP ZEROED IN ON U.S. CONCEPT OF USING CALLABLE CAPITAL OF ICA'S AS SECURITY FOR FUND BORROWING. U.S. DEL EXPLAINED THAT IN U.S. MODEL THE USE OF CALLABLE CAPITAL WAS SUBJECT TO SOME RESTRICTIONS. SEVERAL DELS EXPRESSED SURPRISE AT THIS SINCE THEY THOUGHT CALLABLE CAPITAL WAS WHOLLY FUNGIBLE. THEY DOUBTED THAT THE U.S. COMMON FUND CONCEPT WOULD BE VIABLE UNLESS CALLABLE CAPITAL WAS POOLED ALONG WITH OTHER FUND RESOURCES SO AS TO GIVE FUND AN IMMEDIATE BORROWING CAPABILITY AND TO BROADEN BASE FOR SUCH BORROWING.

5. OPERATIONAL MECHANISM: DISCUSSION FOCUSED ON THREE SPECIFIC ELEMENTS: ROLE OF STOCK WARRANTS AS COLLATERAL FOR BORROWING BY CF, PROPORTION OF ICA RESOURCES TO BE DEPOSITED IN CF IN CASH, AND ISSUE OF DIRECT CONTRIBUTIONS TO CF. AN AUSTRALIAN PAPER

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PROPOSED THAT SECURITY FOR COMMERCIAL BORROWING BY CF
BE BASED ON COMBINATION OF CF RIGHTS TO ICAS' CALLABLE
CAPITAL AND DIRECT GOVERNMENT CONTRIBU-
TIONS. AUSTRALIANS OPPOSED USE BY CF OF STOCK WARRANTS
AS COLLATERAL OWING TO POSSIBLE LEGAL PROBLEMS AND
INFRINGEMENT ON AUTONOMY OF ICA'S. U.S., UK AND FRG
DISPUTED NECESSITY OF THE DIRECT-CONTRIBUTION COM-
PONENT OF A BACK-UP FACILITY, WHEREAS SWEDEN AND
NORWAY APPLAUDED ITS INCLUSION IN AUSTRALIAN PAPER.
WHILE U.S. SAW POSSIBLE SUBSTANTIAL ROLE FOR STOCK
WARRANTS, AND UK DID NOT RULE IT OUT, CANADA SUPPORTED
AUSTRALIAN VIEW. SWEDEN SUGGESTED AS COMPROMISE THAT
WARRANTS MIGHT SERVE AS COLLATERAL ONLY AS LAST RESORT.

6. AN EVEN GREATER BONE OF CONTENTION WAS REFERENCE
IN CHAIRMAN'S REPORT, AND IN HIS PROPOSED SCHEME FOR
A CF, TO AN ILLUSTRATIVE FIGURE OF 80 PERCENT
AS PROPORTION OF EACH ICA'S MAXIMUM FINANCIAL REQUIRE-
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MENTS (MFR'S) WHICH SHOULD BE DEPOSITED IN CF. STRONG ATTACKS ON SUCH HIGH DEPOSIT LEVEL BY NORDICS, NETHERLANDS, AUSTRALIA AND CANADA FEATURED ARGUMENTS THAT, HERETOFORE, A MUCH LOWER FIGURE HAD BEEN USED IN AD HOC GROUP'S DISCUSSIONS. IN THE END, FIGURE WAS RETAINED IN THE REPORT IN A FOOTNOTE.

7. TO COMPLICATE CHAIRMAN'S TASK OF WELDING TOGETHER A COMMON POSITION, JAPANESE WEIGHED IN ON AFTERNOON OF LAST DAY OF MEETING WITH A SPIRITED PRESENTATION OF A PAPER PROPOSING A COMMON FUND BASED ENTIRELY ON COMMERCIAL BORROWING BACKED BY WORLD BANK GUARANTEES, WHICH IN TURN WOULD BE SUPPORTED BY ADDITIONAL CALLABLE CAPITAL TO BE SUBSCRIBED BY WORLD BANK MEMBERS ESPECIALLY FOR THAT PURPOSE. JAPAN PROPOSED THAT NON-MEMBERS OF BANK WOULD MAKE PROPORTIONAL PLEDGES DIRECTLY TO FUND (THUS CASUALLY THROWING THE INCREDULOUS SWISS DELEGATE INTO SAME CATEGORY AS COMMUNIST COUNTRIES). NUMEROUS COMMENTS ON PAPER RANGED FROM HOSTILE TO SKEPTICAL.

8. OTHER MEASURES: DISCUSSIONS OF THIS ISSUE WAS BASED ON PAPERS PRESENTED BY SWEDEN AND NETHERLANDS WHO DEFENDED INCLUSION OF OTHER MEASURES IN A CF, AND BY UK AND EUROPEAN COMMISSION, WHO OPPOSED THEIR INCLUSION. DEBATE WAS GENERALLY LOW-KEY AND DISPASSIONATE. WHILE NORWAY GAVE UNCONDITIONAL SUPPORT, FINLAND AND DENMARK MADE CLEAR THEIR SUPPORT WAS BASED STRICTLY ON POLITICAL RATHER THAN ECONOMIC CONSIDERATIONS. U.S., GENERALLY SUPPORTING UK PAPER, DETAILED REASONS FOR ITS SKEPTICISM OF APPROPRIATENESS OR FEASIBILITY OF INCLUDING PROVISION FOR OTHER MEASURES IN FUND. FRG DEL (KIPPER) SAID HIS GOVERNMENT HAD NO LIMITED OFFICIAL USE

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POSITION ON ISSUE BUT BLASTED CONCEPT IN HIS PERSONAL, EXPERT CAPACITY. FRENCH DEL SAID FRANCE WAS UNENTHUSIASTIC ABOUT IDEA. GROUP AGREED THAT SECRETARIAT SHOULD PREPARE SYNTHESIS CONTAINING CHECKLIST OF ISSUES AND ANY OTHER RELEVANT INFORMATION ON ISSUE. SEVERAL DELS WELCOMED U.S. ANNOUNCEMENT THAT IT WAS PREPARING BACKGROUND PAPER ON THE SUBJECT AND URGED ITS COMPLETION BY NEXT MEETING OF GROUP.

9. ADMINISTRATION AND VOTING: IN VIEW OF LATENESS OF THE HOUR THIS ITEM WAS POSTPONED TO FUTURE MEETING.

10. WRAPUP AND ASSESSMENT OF STATE OF OECD PREPARATIONS WILL FOLLOW IN REPORT OF HLGC MEETING 9/30.
SALZMAN

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